

Bryan County Rural Water & Sewer District #5

Independent Auditors Report

**As of and for the Years Ended
August 31, 2016 and 2015**

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Independent Auditors Report

To the Board of Directors
Bryan County Rural Water & Sewer District #5
Durant, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Bryan County Rural Water & Sewer District #5, as of and for the years ended August 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Bryan County Rural Water & Sewer District #5, as of August 31, 2016 and 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ending in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 22, 2017, on our consideration of the Bryan County Rural Water & Sewer District #5's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Bryan County Rural Water & Sewer District #5's internal control over financial reporting and compliance.

Russell + Williams CPA's, P.C.

Oklahoma City, Oklahoma
November 22, 2017

Bryan Co. Rural Water & Sewer Dist. #5

Statement of Net Position

August 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|-------------------------------|-------------------------------|
| ASSETS | | |
| Cash in bank-unrestricted | \$ 1,308,523.79 | \$ 1,103,218.83 |
| Certificate of Deposits-unrestricted | 233,975.57 | 233,624.13 |
| Certificate of Deposits-restricted | 120,372.78 | 120,046.17 |
| Accounts receivable, net | 172,354.76 | 159,454.35 |
| Prepaid Insurance | <u>25,080.33</u> | <u>24,827.39</u> |
| Total current assets | 1,860,307.23 | 1,641,170.87 |
| Capital assets, net | <u>2,998,385.46</u> | <u>3,063,075.63</u> |
| TOTAL ASSETS | <u><u>\$ 4,858,692.69</u></u> | <u><u>\$ 4,704,246.50</u></u> |
| LIABILITIES AND NET ASSETS | | |
| Accounts Payable | \$ 37,089.43 | \$ 57,497.58 |
| Payroll Taxes Payable | 11,029.70 | 768.50 |
| Accrued Interest Payable | - | 1,290.48 |
| Accrued Compensated Absences | 11,057.51 | 4,898.57 |
| Refundable Meter Deposits | <u>65,350.00</u> | <u>64,100.00</u> |
| Total current liabilities | 124,526.64 | 128,555.13 |
| Notes Payable USDA | <u>356,433.93</u> | <u>394,396.16</u> |
| Total Liabilities | <u>480,960.57</u> | <u>522,951.29</u> |
| NET POSITION | | |
| Net Investment in capital assets | 2,641,951.53 | 2,668,679.47 |
| Restricted for debt service and maintenance | 120,372.78 | 120,046.17 |
| Unrestricted | <u>1,615,407.81</u> | <u>1,392,569.57</u> |
| Total Net Position | <u>4,377,732.12</u> | <u>4,181,295.21</u> |
| TOTAL LIABILITIES AND NET POSITION | <u><u>\$ 4,858,692.69</u></u> | <u><u>\$ 4,704,246.50</u></u> |

The accompanying notes are an integral part of these financial statements.

Bryan Co. Rural Water & Sewer Dist. #5
Statement of Revenues Over Expenses and Changes in Net Position
For the Year Ended August 31, 2016 and 2015

| | 2016 | 2015 |
|--|-----------------|-----------------|
| OPERATING REVENUES | | |
| Water sales | \$ 1,474,503.43 | \$ 1,351,835.41 |
| Installation and Tap Fees | 76,372.73 | 77,117.29 |
| Sewer and Trash Collection Fees | 14,023.81 | 11,866.42 |
| TOTAL OPERATING REVENUES | 1,564,899.97 | 1,440,819.12 |
| OPERATING EXPENSES | | |
| Advertising | 910.06 | 592.03 |
| Audit | 5,100.00 | 5,100.00 |
| Bank Fees | 5,994.29 | 3,558.69 |
| Computer Software and Maintenance | 3,567.00 | 2,771.80 |
| Depreciation | 196,170.89 | 201,975.53 |
| Dues and Fees | 7,468.51 | 4,523.29 |
| Employee Benefits - Health Insurance | 35,295.82 | 35,405.92 |
| Flowers and Gifts | - | 132.79 |
| Food and Meeting Expense | 1,398.26 | 1,744.52 |
| Insurance and Bonds | 41,110.00 | 38,698.56 |
| Interest | 17,251.04 | 20,860.53 |
| Legal and Professional | 3,100.00 | 5,300.00 |
| Medical and Safety Supplies | 45.75 | 186.80 |
| Mileage | 831.04 | 556.15 |
| Miscellaneous | 75.00 | 125.00 |
| Office Supplies and Expense | 29,964.79 | 31,430.36 |
| Payroll Taxes | 21,683.54 | 20,631.49 |
| Pension Plan Expense | 16,968.40 | 9,338.96 |
| Postage | 13,321.90 | 10,867.90 |
| Purchase of Water | 589,325.96 | 553,775.12 |
| Repairs and Maintenance | 66,424.24 | 13,037.65 |
| Salaries and Wages | 264,952.26 | 255,317.82 |
| Truck and Tractor Expense | 25,350.12 | 23,979.01 |
| Uniforms and Laundry | 1,272.80 | 1,661.00 |
| Utilities and Telephone | 29,851.12 | 24,791.25 |
| Water Tests and Lab Fees | 4,758.65 | 8,053.08 |
| TOTAL OPERATING EXPENSES | 1,382,191.44 | 1,274,415.25 |
| OPERATING INCOME (LOSS) | 182,708.53 | 166,403.87 |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Interest Income | 1,180.86 | 1,095.44 |
| Other Income | 6,846.52 | 9,161.82 |
| Memberships | 5,701.00 | 2,625.00 |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | 13,728.38 | 12,882.26 |
| NET INCOME | 196,436.91 | 179,286.13 |
| Beginning Net Position | 4,181,295.21 | 4,002,009.08 |
| Ending Net Position | \$ 4,377,732.12 | \$ 4,181,295.21 |

The accompanying notes are an integral part of these financial statements.

Bryan Co. Rural Water & Sewer Dist. #5
Statement of Cash Flows
For the Year Ending August 31, 2016 and 2015

| | 2016 | 2015 |
|--|-----------------|-----------------|
| Cash Flows From Operating Activities | | |
| Receipts from customers | \$ 1,551,999.56 | \$ 1,427,460.61 |
| Payments to suppliers | (849,280.58) | (758,400.55) |
| Payments to employees | (322,479.88) | (342,436.78) |
| Interest Paid | (18,541.52) | (20,860.53) |
| Net Cash Provided by Operating Activities | 361,697.58 | 305,762.75 |
| Cash Flows From Investing Activities | | |
| Interest Received | 1,180.86 | 1,095.44 |
| Capital Asset Purchases | (131,480.72) | (151,873.66) |
| Net Cash Provided by Investing Activities | (130,299.86) | (150,778.22) |
| Cash Flows From Capital and Related Financing Activities | | |
| Recovery of Bad Debts | - | - |
| Other Income | 6,846.52 | 9,161.82 |
| Membership Income | 5,701.00 | 2,625.00 |
| New Loan Proceeds | 356,433.93 | - |
| Principal paid on long term debt | (394,396.16) | (83,503.47) |
| Net Cash Flows From Capital and Related Financing Activities | (25,414.71) | (71,716.65) |
| Net Increase (Decrease) in Cash | 205,983.01 | 83,267.88 |
| Cash, Beginning of the Year | 1,456,889.13 | 1,373,621.25 |
| Cash, End of the Year | \$ 1,662,872.14 | \$ 1,456,889.13 |
| Cash and Equivalents - Unrestricted | 1,542,499.36 | 1,336,842.96 |
| Cash and Equivalents - Restricted | 120,372.78 | 120,046.17 |
| Total Cash and Equivalents | \$ 1,662,872.14 | \$ 1,456,889.13 |
| <i>Reconciliation of change in net position</i> | | |
| <i>to net cash provided by operations</i> | | |
| Change in Net Position | 182,708.53 | 166,403.87 |
| Adjustments to reconcile change in net position to net cash provided (used) by operating activities: | | |
| Depreciation | 196,170.89 | 201,975.53 |
| Changes in Assets and Liabilities: | | |
| (Increase) Decrease in Accounts Receivable | (13,579.38) | (14,061.59) |
| Increase (Decrease) in Doubtful Accounts | 678.97 | 703.08 |
| (Increase) Decrease in Prepaid Expenses | (252.94) | (2,451.80) |
| Increase (Decrease) in Accounts Payable | (20,408.15) | (26,313.75) |
| Increase (Decrease) in Payroll Taxes Payable | 10,261.20 | (16,361.69) |
| Increase (Decrease) in Accrued Interest Payable | (1,290.48) | - |
| Increase (Decrease) in Accrued Compensated Absences | 6,158.94 | (5,380.90) |
| Increase (Decrease) in Refundable Meter Deposits | 1,250.00 | 1,250.00 |
| Net cash provided by operating activities | \$ 361,697.58 | \$ 305,762.75 |

The accompanying notes are an integral part of these financial statements.

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2016 and 2015

Note 1: Summary of Significant Accounting Policies

Financial Reporting Entity

Rural Water and Sewer District No. 5, Bryan County, Oklahoma (the District) was organized for the purpose of providing water to the rural residents and businesses located in a the southern portion of Bryan County, Oklahoma. The water district uses the accrual basis of accounting; consequently, all revenue is included when earned, and all expenses are recognized when the obligation is incurred.

Basis of Presentation, Measurement Focus, and Basis of Accounting

The District is financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the costs of providing water to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses Incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District uses one fund which is a proprietary fund of a business-type activity as described above. This fund is reported on the accrual basis of accounting; consequently, all revenue is included when earned, and all expenses are recognized when the obligation is incurred.

Proprietary fund equity is reported as restricted net assets (funds that are restricted to a particular use), unrestricted net assets, and investments in capital assets net of related debt.

Operating revenues and expenses for proprietary funds are those that result from providing water, sewer, and solid waste collection services.

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts in various funds. Actual results could differ from those estimates.

Note 2: Stewardship, Compliance and Accountability

Budget

The District prepares an annual estimated budget of cash receipts and disbursements for the purpose of adjusting water rates if necessary and as a forecast of cash receipts and disbursements required by the USDA Rural Development. This does not meet the definition of a legally required and adopted budget and accordingly is not presented.

Risk Management

The District's business activity is with customers located within a portion of Bryan County, Oklahoma. As of August 31, 2016 and 2015, the District's receivables were \$181,426 and \$167,846, respectively. An overall decline in the economic condition of the area could affect the collection of those receivables.

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2016 and 2015

The District is exposed to various risks of loss related to theft of and damage to assets, errors and omissions, injuries to employees, and natural disasters. The District purchases commercial insurance to cover these possible liabilities.

Commitments and Contingencies

The District participates in state and federally assisted loan and grant programs. These programs are subject to program compliance audits by grantors or their representatives. Accordingly, the District's compliance with applicable loan and grant requirements will be established at some future date. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Note 3: Detail Notes On Transaction Classes and Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

Cash and Equivalents

For the purpose of the Statement of Net Assets, "cash" includes all demand, savings accounts, and certificates of deposits of the District. For the purpose of the proprietary fund Statement of Cash Flows, "cash and equivalents" includes all demand and savings accounts, and certificates of deposit with an original maturity of three months or less.

Deposits are classified into the following three categories: (1) Insurance or collateralized with securities held by the entity or by its agent or in the entity's name (Category 1); (2) Collateralized with securities held by the pledging financial institutions trust department or agent In the entity's name (Category 2); and (3) Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name (Category 3).

All of the District's cash accounts are considered Category 1. The accounts are covered by FDIC insurance up to \$250,000. The accounts are further collateralized by \$1,750,000 in letters of credit from the Federal Home Loan Bank of Topeka, KS. At August 31, 2016 all accounts were covered by either the federal depository insurance or other collateral.

Accounts Receivable

Accounts receivables consist of all revenues earned at year-end and not yet received. Allowances for doubtful accounts are based on 5% of the accounts receivable balance at the end of the accounting year.

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2016 and 2015

Capital Assets

Capital assets used in the District's operations are stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method at various rates based on the estimated useful lives of the assets. Generally, estimated useful lives of five years for trucks and tractors, ten years for furniture, fixtures and equipment, and thirty years for the building and water system are used. Maintenance and repairs as well as renewals and betterments of small amounts are charged against Income as incurred whereas major renewals or betterments which extend the life or increase the value of property are capitalized.

Capital asset activity for the year ended August 31, 2016 is as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance |
|--------------------------------|----------------------|-----------|------------|---------------------|
| Water System | 6,515,731 | 129,781 | - | 6,645,512 |
| Land | 36,575 | - | - | 36,575 |
| Trucks & Tractors | 482,171 | 1,700 | (21,179) | 462,692 |
| Office Building | 50,288 | - | - | 50,288 |
| Office Furniture & Equipment | 72,938 | - | - | 72,938 |
| Total | 7,157,703 | 131,481 | (21,179) | 7,268,004 |
| Less: Accumulated Depreciation | (4,094,628) | (196,171) | 21,179 | (4,269,620) |
| Net Capital Assets | <u>\$ 3,063,075</u> | | | <u>\$ 2,998,384</u> |

Capital asset activity for the year ended August 31, 2015 is as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance |
|--------------------------------|----------------------|-----------|------------|---------------------|
| Water System | 6,515,731 | - | - | 6,515,731 |
| Land | 36,575 | - | - | 36,575 |
| Trucks & Tractors | 355,855 | 151,874 | (25,558) | 482,171 |
| Office Building | 50,288 | - | - | 50,288 |
| Office Furniture & Equipment | 72,938 | - | - | 72,938 |
| Total | 7,031,387 | 151,874 | (25,558) | 7,157,703 |
| Less: Accumulated Depreciation | (3,918,210) | (201,976) | 25,558 | (4,094,628) |
| Net Capital Assets | <u>\$ 3,113,177</u> | | | <u>\$ 3,063,075</u> |

Noncurrent Debt

During the year ending August 31, 2016, the District entered into a new loan agreement with Rural Development. The total amount of the new loan with Rural Development was \$8,043,100. However, Rural Development has only advanced \$356,433.93 as of the end of the year. The bulk of this advance was used to payoff the existing loans that the District had with Rural Development. The remaining portion of the new loan will be advanced in the next fiscal year to help update existing waterlines, wells, towers, and expand buildings.

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2016 and 2015

Retirement Plan

On January 10, 1997 the water district adopted the National Association of Counties Deferred Compensation Program for its full time employees through a joint contributory defined contribution plan. The water district's total payroll for the year was \$264,952 and the covered payroll was \$161,853. The water district's contributions for the year were \$7,307 and the employee's contributions were \$9,661. There were no related party transactions in the plan during the year. Employer contributions to the plan vest at the time contributions are made. The employee may elect the time at which distributions under the Plan are to commence by designating the month and year during which the first distribution is to be made. The earliest distribution commencement date that may be elected by the employee shall be the earlier of (a) the date on which the employee separates from services; or (b) the date on which the employee attains age 70 1/2 or terminates deferrals under this plan, whichever is later.

Restricted Assets

The USDA Rural Development required an amount equal to the note payments for one year be set aside and controlled by them. Since the loans were paid off during the year these amounts are no longer restricted. However, the District has continued to hold these accounts as restricted until the new loan is fully funded and the new loan requirements have been met.

Subsequent Events

Subsequent events have been evaluated through November 22, 2017 which is the date the financial statements were issued.

Russell & Williams CPA's, P.C.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Bryan County Rural Water & Sewer District #5
Durant, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the accompanying financial statements of the business-type activities of the Bryan County Rural Water & Sewer District #5, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Bryan County Rural Water & Sewer District #5's basic financial statements, and have issued our report thereon dated November 22, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bryan County Rural Water & Sewer District #5's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bryan County Rural Water & Sewer District #5's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bryan County Rural Water & Sewer District #5's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bryan County Rural Water & Sewer District #5's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Russell + Williams CPAs, P.C.

Oklahoma City, Oklahoma
November 22, 2017